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THE BEGINNINGS OF AMERICAN FINANCIAL INDEPENDENCE.

A NATION may be called financially independent when its investments abroad exceed foreign investments within its own territory. These investments arise from the national interchange of services and commodities. The records of such international transactions from 1700 to 1789 indicate that when the United States began its career under the Constitution it owed other nations about 80 million dollars.[1] Whether it was able to reverse this situation in the next few decades is a question of importance to those who are interested in the evolution of American trade and credit.

In the first customs-revenue law Congress made such regulations as were deemed necessary for ascertaining the amount and value of imports.[2] A year later, in August 1790, provision was made for ascertaining the facts as to exports.[3] At first the official reports were made only when ordered by the house or senate.[4] Fortunately, during this period of governmental indifference, Tench Coxe was doing his best, as Commissioner of Revenue, to create reliable statistics from such custom-house returns as were received.[5]

In 1796 a system of annual reports was established.[6] A letter of the Secretary of the Treasury written that year indicates that the existing laws provided no satisfactory means of ascertaining the value of imports.[7] In 1806 Secretary Gallatin called attention

[1] JOURNAL OF POLITICAL ECONOMY, December 1897, p. 27.

[2] *United States Statutes at Large*, vol. i. p. 69. [3] *Ibid.*, p. 145.

[4] *Annals of Congress*, I Congress, vol. ii. p. 1838.

[5] See various reports and letters from Coxe in *American State Papers on Commerce and Navigation*, vol. i.

[6] *Annals of Congress*, IV Congress, first session, p. 44.

[7] "The secretary further observes, that there are no documents in the treasury which enable him to state the *value* of those articles of merchandise, which have been

to the fact that no record was being made of the movements of the precious metals or of imports free of duty.[1] In 1812 he reported the amount of exports for each year from 1791–1810.[2] This report is interesting because the amounts differ from those given in the annual reports, by sums ranging from $100,000 to nearly 5 million dollars.[3] These changes are apparently the result of careful revision, such as to inspire confidence in the final official record.

An interesting contemporary review and estimate of official trade statistics and the methods used in obtaining them is found in the report of the then newly appointed Senate Committee on Commerce and Manufactures, December 20, 1819. The collectors usually accepted the statements of the masters of vessels as to kind and quantities, and in a few cases as to value of exports. Carelessness and ignorance made these statements inaccurate, but, as there was no motive to deceive, the errors probably balanced each other. The valuation of the exporter was usually accepted for re-exports subject to ad valorem duties and those not subject to duty.

Imports free of duty had never been reported. Their value for fifteen years past was estimated at 45 million dollars. There was no official valuation of imports subject to ad valorem duty. The merit of Pitkin's estimates of imports[4] was conceded by the committee, but they make the following comment: "These estimates comprehend only the imports subject to duty. They give the imports subject to ad valorem duties at their foreign cost; with additions of ten and twenty per

subject to *specific* duties on being imported into the United States. In respect to such articles the *quantities* only can be exhibited."—*American State Papers: Commerce and Navigation*, vol. i. p. 322.

[1] *American State Papers on Commerce and Navigation*, vol. i. p. 640.

[2] *Ibid.*, vol. i. p. 926.

[3] There were increases, in round numbers, of two million dollars for 1791, $250,000 for 1792, $100,000 for 1793, $5,555,000 for 1797, $200,000 for 1798, one million dollars for 1801, $500,000 for 1802, and a decrease of 2.5 million dollars in 1806. See Annual Reports, *American State Papers on Commerce and Navigation*, vol. i.

[4] PITKIN, *Statistical View*, 1817.

centum. They give the value of the imports subject to specific duties, as that value was estimated to have been in the United States after importation. That value, of course, included freights, mercantile profits, and our own duties upon the articles. When the imports thus valued are placed in opposition to the exports of the same years [1795–1801], the contrast is remarkable. . . . . Upon the whole period of seven years the imports appear to exceed the exports by $99,493,327; . . . . and yet . . . . . from every source of information . . . . excepting only the public statements, there can hardly be any doubt that the exports exceeded the imports in every one of those years." They say that this error is caused by valuing the exports at their prime cost in the United States, while to the prime cost of the imports abroad there are added the great variety of charges mentioned above. No estimates had yet been made of the imports for most of the years during this period.

In 1835 the seal of official approval was put on a series of estimates of these imports published in the report of the Secretary of the Treasury for that year. No attempt has ever been made to revise the figures then made. The report says that Pitkin's estimate was taken for the years from 1795 to 1801, and that the amount for 1815 was taken from Seybert.[1] Estimates for the other years were made in the department.

Our review of the sources of information as to the exports and imports of the United States has made it clear that we have no exact records in the matter. We have, however, so far as can be determined, the estimates of men painstaking in their work, and acting without any motive to deceit.

What is given is the value of the exports at the port of shipment from the United States. To find a correct balance between exports so valued and imports, the value of the imports at their port of shipment should be used. This the official figures do not give, and it is therefore necessary to settle on some allowance for this discrepancy.

[1] SEYBERT, *Statistical Annals.*

February 28, 1793, an official estimate of the value of imports for 1792 was sent to the senate.[1] The details of the report show that an attempt was made to give the value at the port of shipment. There is a question whether imports not subject to duty were included. If they were not, then according to the report of the committee of 1819, an addition of about 5 per cent. should be made to this estimate. The estimate may otherwise be considered authoritative; but the revisers in 1835 added 16 per cent. to its amount.[2]

Mr. Gallatin in 1806 expressed the opinion that the official estimates of imports for the years 1802, 1803, and 1804 are 25 million dollars higher than the cost of the goods at the port of shipment.[3] If we make this deduction, we find the results much lower than the estimates for those years published in Blodget's Manual.[4] We can safely assume, then, that these estimates would have been indorsed by Gallatin as high enough for values at the port of shipment.[5] But a comparison of estimates from 1790 to 1804 shows that the total imports for that period, as given in the public records, exceed those given by Blodget by 20 per cent.[6] Pitkin's estimate of the imports for 1807 gives another opportunity of testing the official figures which are practically the same for that year. It is evident from the context that Pitkin had made as large additions to the prime cost in this as in former estimates.[7]

[1] *American State Papers on Commerce and Navigation*, vol. i. p. 202.

[2] The estimate in 1793 was $25,027,126; in 1835, $29,200,000.

[3] *American State Papers on Commerce and Navigation*, vol. i. p. 643.

[4] BLODGET, *Economica* (Washington, 1806).

[5] The Manual's estimates for the three years is ten million dollars higher than Gallatin's, but the former were intended to include the stock and furniture of emigrants. See *Senate Documents*, 1835–6, vol. i. p. 32.

[6] The figures given by Blodget are as follows:

1790	$17,500,000	1795	$48,000,000	1800	$71,000,000
1791	19,000,000	1796	68,000,000	1801	88,000,000
1792	22,000,000	1797	52,000,000	1802	73,000,000
1793	26,000,000	1798	63,000,000	1803	56,000,000
1794	34,000,000	1799	79,000,000	1804	80,000,000

[7] *Statistical View*, p. 195.

No further opportunity for a test is to be found till the figures for 1815 are reached. These are said to be taken from Seybert, but Seybert quoted from Pitkin.[1] Pitkin himself says of this estimate that the values were much increased by the addition of the double duties charged during that year.[2] In the official figures for the year may be found a strange instance of compensating errors. By some mistake, instead of copying Seybert's figures exactly, they recorded the imports for the year as 20 million dollars less than those figures show. This misquotation seems to have been copied in every subsequent official table of imports prepared in the last sixty-three years. But by another error, even more curious, the consequence of the first is probably much more than offset. The estimate which they attempted to copy, as giving the imports of the year ending September 30, 1815, was really made for the year ending December 31, 1815.[3] The value of the imports subject to ad valorem duties, in the year for which Pitkin made the estimate, exceeded by 35 million dollars those of the year for which the officials wished a record. It seems likely, therefore, that, in spite of their lopping off 20 million dollars from Seybert's figures, the officials have made an exceptionally large addition to the port-of-shipment valuations of imports for the year 1815.

They say that the amounts for the other years were obtained by estimates and comparisons. All this would indicate that, for the whole period, the official estimate of imports probably exceeded their values in the port of shipment by at least 20 per cent.

Another factor that cannot be disregarded in balancing the exports and imports against each other is the valuation of re-exports. How do these goods, that simply come into our ports, stay a while, and then pass out again, affect the problem? It is necessary to include them in both the exports and imports. No error would result from these entries if the goods were valued in the same manner in both cases. But no such additions are made to their prime costs as exports as are made when

[1] *Statistical Annals*, p. 156. [2] *Statistical View*, p. 198. [3] *Ibid.*

their import value is estimated.[1] As 29 per cent. of the imports for the entire period were re-exported, the methods of valuation unduly decreased the credits in favor of the United States, as they appear in the records.

It is evident that if, in making up our account, we accept the official figures as indicating the value of the imports at port of shipment, we shall be counting large debits against the United States that are apparent only. It is impossible to make any reliable estimate of the errors that would result from such a course. On the other hand, a multitude of services were rendered the United States in connection with these imports, the value of which it is quite as impossible to ascertain. Among these were the ocean freights, charges for marine insurance, packages and cartage, commissions, and, in some cases, profits on the sales of the goods above the import valuation. Though it is not probable that the amounts of these indeterminate factors on the opposite sides would exactly balance each other, no better escape from the difficulty presents itself than to assume that such is the case. In other words, it is assumed that the official figures give the value of the imports at the port of entry, and this means that in this entry the United States is charged not only with various services by foreigners, but also with the earnings of its own ships on their homeward voyages.

In the light of the preceding discussion of the records a summary of the transactions from 1789 to 1820 will now be attempted. We find:[2]

Imports, 1789–1820 (assumed valuation at ports of entry),	$2,350,628,238
Exports 1789–1820 (assumed valuation at ports of clearance),	1,839,003,367
Balance of trade against the United States up to 1820,	$511,624,871

As the official records up to this time take no notice of any movement of the precious metals, it becomes necessary to estimate the amount of their net importation. If it is assumed that the country produced as much as it used in the arts, the amount

[1] See p. 188.

[2] *Commerce and Navigation of the United States*, 1878, p. xxii.

imported can be found by deducting the amount on hand in 1789 from that on hand in 1820. Tench Coxe gives the amount on hand in 1791 as seven million dollars.[1] Other authorities of the time estimate the amount in 1789 at sums varying from 9 to 18 million dollars. Any surplus over Mr. Coxe's estimate may very well be allowed for use in the arts. Secretary of the Treasury Crawford in 1820 estimated the supply of specie in the country as amounting to 20 million dollars. It follows that the United States should be charged with 13 million dollars for net imports of specie.

An item on the other side of the account is the sale of ships to foreigners. The statistics as to shipping built each year were not recorded before 1797.[2] The record of the tonnage sold to foreigners begins with 1815.[3] According to this record the amount sold from 1815 to 1820 was 80,000 tons. During the years 1797 to 1814 the amount of shipping built in the United States was in round numbers 1.6 million tons.[4] The official records show that from 1815 to 1824 $\frac{116}{907}$ of the whole tonnage built was sold to foreigners. It may be assumed that as large a proportion of the tonnage built from 1797 to 1814 was disposed of in the same way. The sales for those years may then be counted as $\frac{116}{907}$ of 1.6 million tons, or 205,000 tons. There is no basis on which to estimate the sales from 1789 to 1796, but they were probably enough to balance all purchases from foreigners made by the Americans from 1789 to 1820.

The price received for the 285,000 tons of estimated sales is not known. Tench Coxe estimates the cost of American built ships about 1790 at $34 a ton.[5] He says similar ships sell in Europe at $55 to $65 a ton. A memorial to Congress from the chamber of commerce of New York City, in 1803, puts their cost at $40 to $55 a ton.[6] The Mercantile Society of the

[1] TENCH COXE, *View of the United States*, p. 352.

[2] *Report of the Commissioner of Navigation*, 1894, p. 324.

[3] *American State Papers on Commerce and Navigation*, vol. ii. p. 43.

[4] The amount built in 1802 is estimated.

[5] COXE, p. 220.

[6] *Annals*, XVI Congress, second session, 1820–21, p. 1637.

same city claims in 1821 that American ships are built for \$60 a ton while the cost in England is \$80.[1] The great decline in general prices, which reached its culmination a quarter of a century later, had then been in progress several years. It is probable, therefore, that there was a much higher range of costs during the years for which we have no data. There is no question, moreover, but that much of the shipping sold abroad returned a very handsome profit. But that there may be no question as to the conservatism of the estimate, the average selling price is placed at \$50 a ton. On this basis the United States is entitled to a credit of \$14,250,000 on account of net exports of ships.

The valuations that have been accepted for exports and imports make it necessary to credit the United States with the entire net earnings of that part of her shipping engaged in the ocean carrying trade. From the official records we learn that this tonnage would have equaled 20 million tons engaged for one year.[2]

The next question is as to the probable net earnings per ton. The freight to France in 1821 was estimated to average about \$20 a ton.[3] Ships could make three such voyages a year. This would make the annual gross earnings of those in that trade about \$60.[4] In the decade 1880–1890 English ships were earning from 80 to 88 per cent. on a valuation of \$85 to \$110 a ton. This was done with freights across the Atlantic only about one-third as high as in 1821.[5] Fortunes that have formed an important element in most of the great financial undertakings in the United States since that time were accumulated in the ocean carrying trade during these thirty-one years. They were accumulated in spite of the enormous losses suffered through British and French illegal seizures, and the war of 1812. In the face of all these facts it does not seem probable that the gross earn-

[1] *Annals*, XVI Congress, second session, 1820–21, 1646.

[2] *Commerce and Navigation of the United States*, 1892, p. 1214.

[3] *Annals*, XVI Congress, second session, p. 1642.

[4] *Ibid.*, first session, p. 1972.

[5] GIFFEN, *Essays in Finance*, vol. ii. pp. 176–181.

ings could have averaged less than the $60 a ton indicated as the earnings of a ship engaged in the French trade in 1821. Out of this must be deducted the expenses in foreign ports. For sailing vessels from a country where food was cheaper than in any other these must have been quite low. In order to give the widest margin for error, these expenses have been placed at $20 a ton. This reduces the net annual earnings to $40 a ton, but still leaves the United States entitled to a credit from this source of 800 million dollars.[1]

The very large allowance that has been made for the expenses of American shipping in foreign ports suggests that the United States is entitled to a credit for the expenses of foreign shipping in its own ports. Any attempt to estimate such expenses must prove a failure, but it seems a certainty that they must have been sufficient to counterbalance any error that may have arisen from assuming that the official valuation of imports correctly represents the value of those goods at the port of entry.

The sums collected by the government from foreigners in payment for the privilege of doing business in the United States are more amenable to investigation. During the first year merchandise imported in foreign vessels had to pay 11 per cent. higher duties than that imported in American ships.[2] This discriminating tax was continued at 10 per cent. throughout the period, except in the case of certain favored nations after 1815.[3] These exceptions were not of sufficient importance to materially affect the problem.[4] The official records show that from 1791 to 1815 foreign ships constituted 14 per cent. of the entire tonnage entered. There is no record for the remaining years, but both official and private comment indicates that the pro-

[1] All losses by capture are to be counted as a part of this 800 million dollars. That the United States afterwards lost part of the wealth gained in its transactions with other nations is no reason for making any change in the accounts of those transactions.

[2] *United States Statutes at Large*, vol. i. p. 27.

[3] *Ibid.*, p. 181, and vol. iii. p. 224.

[4] *United States Statutes at Large*, vol. iii. pp. 464, 465, and *American State Papers on Commerce and Navigation*, vol. ii. p. 403.

portion probably increased after that time.[1] If the percentage of shipping entered by foreigners is a correct index of the per cent. of the entire customs revenue paid by them, it follows that about 1½ per cent. of that revenue was collected as a special tax on foreigners; for it cannot be supposed that people would pay more for goods imported in foreign than in native ships. This revenue amounted in round numbers to 480 million dollars, 1½ per cent. of which gives a credit to the United States from this source of 6.4 million dollars.

The entire difference between revenues received and drawbacks paid out on re-exports constitutes another credit, since we cannot suppose that the goods would have been reshipped if the foreign consumer was not ready to make good such part of this expense as fell directly on the American merchant. In 1802 and 1804 this difference amounted to a trifle over one-half of one per cent. of the value of the re-exports. In 1803 the percentage was higher.[2] Duties collected on re-exports not subject to the payment of any drawback, amounted to 3 per cent. of all re-exports in 1805, 2 per cent. in 1806, and 3 per cent. in 1807.[3] The duties retained in the case of goods on which drawbacks were paid must have increased these percentages very considerably. The amount of the duty retained on re-exports was considerably less before 1800 than afterwards.[4] Allowing all the payments of this nature made before 1800 as a compensation for a possible overestimate, it seems safe to assume that the credit derived from this source, from that time on, equaled 2 per cent. of the amount of the re-exports (680 million dollars), or 13.6 million dollars.

All foreign-built ships entering the ports of the United States before 1815 were subject to a tonnage duty of 50 cents a ton, while American-built ships owned by foreigners paid but 30 cents a ton.[5] After 1815 this duty was somewhat decreased in the case of a few nations. There appears to be no separate

[1] *American State Papers on Commerce and Navigation*, vol. ii. pp. 403 and 453.

[2] *Ibid.*, p. 643.

[3] *Ibid.*, pp. 668, 693, 718.

[4] *United States Statutes at Large*, vol. ii. p. 82.

[5] *Ibid.*, vol. i. p. 27.

record of the revenue received from this source, but it is safe to assume that this credit amounts to 1.4 million dollars, or 50 cents a ton, on the 2.8 million tons of foreign shipping entered up to 1815.

A considerable debit item arose in these years from the returns on foreign capital invested in the United States. The interest paid on what was called the foreign debt of the government is a matter of record and amounted in round numbers to 17.5 million dollars.[1] The Sinking Fund Commission, which had charge of the payment of the interest on the public debt at that time, did not report the amount paid to foreign holders who are said to have held 32 million dollars of that debt in 1803.[2] The old debt, that is to say, what had been incurred before the war loans of 1812, was nearly all paid before 1820.[3] The loans for that war were made under such limitations that the investors in bonds were practically compelled to pay for them in the depreciated paper currency of the state banks. In 1819 foreigners had commenced to invest in these bonds, but there is no reliable evidence as to the extent of their purchases.[4] It appears probable that the foreign holdings of the domestic debt must have been very light during six or seven years of the period; 20 million dollars is a liberal estimate of the average holdings from 1789 to 1820. On this assumption a debit for interest of 36 million dollars accrues from this source.

The first United States bank was instituted with the declared purpose of drawing investments from abroad. In 1809 foreigners owned over seven million dollars of its stock.[5] The average dividends paid by the bank were 8 per cent.[6] Assuming that the foreigners held, on an average, five million dollars in stock

[1] The authority for these figures is the reports of the Sinking Fund Commission, published in *American State Papers on Finance*, vols. i. ii. iii.

[2] *Statistical View*, p. 333.

[3] See reports of Sinking Fund Commission cited above.

[4] The evidence that there were such investments is found in memorials to Congress and in newspaper arguments for the increased protection of home industry.

[5] *American State Papers on Finance*, vol. ii. p. 468.

[6] GALLATIN'S Report of March 2, 1809.

for the twenty years of the banks existence, the United States paid them about eight million dollars in dividends.

There is no evidence of foreign investment in the stock of the second United States bank until 1823, when it amounted to about one-tenth of the whole capital stock. This stock, together with the loan to the bank from Baring Brothers, amounted to nearly five million dollars.[1] So small an investment in 1823, taken together with what is known of the disastrous management of the bank previous to 1820, makes it reasonably certain that it was not a source of revenue to foreigners before that year.

Large investments were made by foreigners in our public lands. In the years 1791 and 1792, 6.5 million acres were bought,[2] and foreigners probably reaped large returns from these and similar purchases.

The returns on foreign investments in United States government bonds and bank stock probably amounted to 61.5 million dollars. These investments were equivalent to about 25 million dollars invested for thirty years. It has been assumed that their entire investments in 1789 amounted to 80 million dollars. While the results obtained by this investigation indicate that this total was continually decreasing, there is no question but that on much of it the rate of profit was higher than in those cases which the inquiry could reach. But it is improbable that it could have been high enough to have produced an aggregate profit larger than would have been produced by the 80 million dollars, had it remained invested at the indicated rate up to 1820. A charge of 200 million dollars will therefore be sufficient to cover any possible debit due to permanent foreign investments. Although various indeterminate allowances have been made for the gains of foreigners on the import trade, the matter may be placed beyond question by adding to profits on permanent investment another 200 million dollars—a little over 8 per cent. on the entire importation as shown by the official

[1] *American State Papers on Finance*, vol. iv. pp. 369, 478.

[2] COXE, p. 153.

figures. That the profits to the foreigner above value at port of entry could by any chance have exceeded this allowance is hardly to be imagined. This makes the entire debit arising from investments of foreign capital 400 million dollars.

This is an appropriate place to mention a credit which places a stigma upon the fair name of American business men, almost as great as is the honor of the nation's standing before the world free from debt at so early a date as 1820. So eminent an authority as Hezekiah Niles, probably the greatest student of the commercial affairs of the United States at that time, makes the claim that between 1815 and 1820 Americans defaulted in their payments to foreign merchants and manufacturers to the amount of 100 million dollars. That any set of merchants and manufacturers should allow themselves to be so duped, is explained by the fact that at the close of the Napoleonic wars, these men found a stock of goods on their hands that it was impossible for them to sell at any price in the European markets, and only with such results as we have mentioned in the American market.

At the present time each year brings a large debit against the United States for the expenses of travel in foreign lands. Should we not look for a similar debit before 1820. Undoubtedly there were considerable amounts spent in this way, but on account of the comparative poverty of the people the total must have been relatively small. On the other hand during much of this period the unsettled condition of Europe made this country the home of a considerable colony of refugees. These refugees, in many cases, were wealthy people and their expenditures were lavish. It is said that those from one country alone were spending no less than $60,000 a month during the summer of 1794.[1] It is probable, moreover, that the large immigration during this period brought with it many claims that must otherwise have been entered on the debit side of the account. It would appear therefore, as a result of traveling expenses and immigration, that the United States is entitled to a credit, but of so

[1] COXE, p. 501.

indeterminate a nature that it may be allowed to stand as compensation for debits omitted.

Payments of awards and indemnities arising under treaties with other nations remain to be considered. There were considerable payments from Great Britain on account of the illegal capture of ships.[1] The effect of their aggregate on the account would not be sufficient to justify the trouble of determining it exactly. The United States probably paid the Mediterranean pirates about two million dollars[2] in all. It paid the government of France $11,250,000 for Louisiana.

As a result of our investigations we have the following statement of the account for the period:

THE UNITED STATES IN ACCOUNT WITH ALL OTHER COUNTRIES, 1789–1820.

DEBTOR.		
To balance due other countries in 1789, -	$ 80,000,000	
To imports (assumed valuation at port of entry), - - - - - - - -	2,350,628,238	
To net import of specie, - - - -	13,000,000	
To returns on investments of foreign capital,	400,000,000	
To payments for Louisana, - - - -	11,250,000	
To payments to Mediterranean pirates, -	2,000,000	
		$2,856,878,238
CREDIT.		
By exports (assumed valuation at port of shipment), - - - - - - -	1,839,003,367	
By net export of ships, - - - - -	14,250,000	
By earnings of merchant marine, - -	800,000,000	
By discriminating tariff charges, - -	6,400,000	
By duties retained on re-exports, - -	13,600,000	
By tonnage duties, - - - - -	1,400,000	
By bad debts, - - - - - - -	100,000,000	
		2,873,653,367
Balance in favor of the United States, - - -		$ 16,775,129

The statement that the international indebtedness of the United States decreased nearly 100 million dollars from 1789 to

[1] *American State Papers on Finance*, vol. ii. p. 485.

[2] SCHOULER, vol. ii. p. 17. HILDRETH, vol. v. p. 433.

1820 is one that, in spite of the support of a considerable array of evidence, may excite surprise, if not incredulity. It seems as much a matter of course that there should be a movement of capital, for the purposes of investment, from old to new countries, as that parents should care for their children until the age of maturity. So peculiar a case must find its explanation in causes that are either exceptional or for some other reason not likely to attract general attention. A review of the causes that were probably effective in influencing the flow of capital to and from the United States during these years may fortify our confidence in the results obtained through study of the records of transactions.

What, then, are some of the direct causes that tend to decrease the international indebtedness of a country? One of the most important is a decreased use of foreign commodities and the services of foreigners. This is the means that is always relied on when a studied attempt is made to reduce such indebtedness. A cause which may be equally effective in reducing an unfavorable balance is an increase in the use of domestic commodities or of the services of the nation by foreigners. A third cause becomes effective when a country changes in such a manner as to decrease the inducements to invest foreign or domestic capital. The Englishman who has been exporting wares to the United States at a low profit or none at all, because of the opportunity to invest in the exceedingly productive copper mines of that country, will cease to send his goods there if such mines become unprofitable. Likewise the American exporter, who would have brought the proceeds of his merchandise home to invest in profitable mining or other enterprises, will seek investments abroad when home enterprises become losing ventures. The fourth and last important general cause is any change in other countries that increases the inducements to invest capital, domestic or foreign, abroad.

Every one of the causes that have been named are subject to the action of three ulterior forces. These are: (1) changes

in the character or disposition of the people, (2) changes in governmental policy or action, (3) changes in the natural resources to be exploited.

Whether there was any change in the American people, that would lead us to expect a relatively smaller consumption of foreign merchandise, is a question on which it is quite easy to find evidence. Doyle says of the southern colonies: "Beyond the rough clothing of the slaves, almost every necessary of life was brought from England, clothes, shoes, household furniture, crockery, even wooden bowls, were imported. Such was the lack of mechanical skill that we even hear of the timber for a house being sent in the rough to England, and returned fashioned and ready to be put together."[1] In colonial times, luxuries were almost of necessity imports, and John Adams writes of "the torrent of luxury" prevailing in revolutionary times.[2] Again, he says, "retrenching this alone would enable them to carry on the war."[3] After the revolution he wrote: "In the late war, the Americans found an unusual quantity of money flow in upon them, ... and rushed headlong into a greater degree of luxury than ought to have crept in for a hundred years."[4] The disposition of a large part of the people in that earlier time is probably well illustrated by Jefferson's words written years later: "While we have land to labor, let us never wish to see our citizens occupied at a work bench, or twirling a distaff."[5] But with the new constitution there came in a new spirit. Weeden believes that spirit to have been incarnated in Washington, to whom he ascribes the virtues of "patience, endurance, economy, and self-denial."[6] John Adams once wrote: "A passion for frugality, perhaps, never existed in a nation." But such words seem to fitly picture the social movement in favor of economy and domestic industries, especially household industries, that swept over New England in the

[1] J. A. DOYLE, *English Colonies in America: Virginia, Maryland, and the Carolinas*, p. 392.

[2] CHARLES FRANCIS ADAMS, *The Works of John Adams*, 1854, vol. ix. p. 343.

[3] *Ibid.*, vol. vii, p. 298. [4] *Ibid.*, vol. vi. p. 96.

[5] Cited by Doyle from JEFFERSON, *State of Virginia*, p. 275.

[6] WEEDEN, *Economic and Social History of New England*, vol. ii. p. 867.

years following 1787.[1] This movement was by no means confined to New England. In April 1789, Washington wrote to the Delaware society for promoting domestic manufacturers, expressing his approval and pledging his support to the attempt to rely as much as possible on the resources of the United States.[2] Letters written by him the same year, note as successful new enterprises, the manufacture of fine woolens in Connecticut; of duck, cordage, glass, shoes and nails, in Massachusetts; of cotton cloths, hats, and articles in leather in Pennsylvania; of glass, in Maryland; and the cultivation of cotton in the South.[3] The description of the general movement toward greater economic independence given in the last chapter of Weeden's work, leaves no question as to its force and importance. The volumes of *American State Papers* have preserved memorials to Congress from every quarter of the Union, which show that the movement was prevalent throughout the country.[4] The inclination of the people to a greater independence was also supported by the strong force of necessity. The reign of luxury and the abuse of foreign credit that attended it, in the years immediately after the revolution, resulted in well-nigh universal bankruptcy and disaster. This experience not only recommended, but in some degree compelled the economies of later years. The new government responded to the many memorials received with a fair degree of promptness. Tariffs were imposed on the importation of foreign manufactures, and American shipping was favored by discriminations in this tariff as well as in the tonnage duties. The system of preying upon American commerce, soon instituted by England, and followed by other European nations, probably encouraged the rapid growth of American manufactures more than anything done by the home government. Non-intercourse seemed the only remedy available. December 22, 1807, the Embargo Act was passed. When the

[1] WEEDEN, *Economic and Social History of New England*, vol. ii. p. 855.

[2] JARED SPARKS, *Writings of Washington*, vol. xii. p. 141.

[3] *Ibid.*, vol. ix. pp. 464, 470.

[4] *American State Papers on Commerce and Navigation*, vol. i. and *Finance*, vol. i.

embargo was removed, fifteen months later, its place was taken by the Non-intercourse Bill, which Henry Adams says "bound the South to the feet of New England."[1]. The votes on the Non-Intercourse Act, forty-one from the South and only twelve from New England, show how bitter the feeling against England was in the South during this period, and how impossible would have been the old colonial relations, under which the English agent had practically complete control of all the business transactions between the plantations and the outside world, the planter himself usually being hopelessly in debt to the English merchant. The non-intercourse agitation was soon followed by the war of 1812. The remarkable effect of these favoring circumstances on home manufactures is shown by the fact that in 1815 the manufacture of cotton, which was just beginning in 1789, was estimated to employ 40 million dollars in capital.[2] It was estimated that the bales manufactured had increased in numbers from 500 in 1800 to 90,000 in 1815.

The opening up of cotton production was probably the most important change coming under the head of exploitation of natural resources. In 1815 the annual product of manufactured cotton in the United States was estimated at 24 million dollars. The exports of cotton for manufacture abroad amounted to 24 million dollars in 1816.[3] Another important fact in this line was the purchase of Louisiana. This opened a field for travel, adventure, and enterprise that employed much wealth that would otherwise have been used in European travel or indulgences in European luxuries.

In order fully to appreciate the importance of this disposition of the American people as regards foreign commodities, it should be recalled that this was at the time when England's differential advantages in the production of commodities was at its greatest, if an excess of exports over imports may be taken as a correct index of such advantage.[4]

[1] HENRY ADAMS, *History of the United States*, vol. iv. p. 451.

[2] PITKIN, p. 140. [3] PITKIN, p. 133.

[4] HOBSON, *Evolution of Capitalism*, p. 13.

The other influences that were at work in bringing about the result shown by the statement are of minor importance, although they merit a general review. The European peoples probably were no more inclined to American commodities and the services of Americans than before. They were compelled to use them, however, by both natural and political forces. The wheat fields of America were already called on to supplement the supply furnished by those of Europe. The tremendous consumption of goods resulting from the prolonged wars of the period had to be provided for by one means or another. The armies of Napoleon marched over all Europe, gathering up the hoards of the past and drawing upon the property of other peoples for his share in this extraordinary expenditure. England, using an entirely different method, strained her credit to its utmost limit for the same purpose. As a result of these measures, and similar ones that preceded them, the price of wheat in the principal grain ports of the United States advanced over 200 per cent.[1] during a period in which the prices of many commodities were being reduced through improvements in machinery. While the nations of Europe were employed in destroying each other's commerce on all seas, it was a matter of necessity that the ships of the United States should become the ocean carriers for the world. Moreover, with each change in the fortunes of war on the continent of Europe, a new group of persons were compelled to gather together such property as they could, and seek safety in flight. Some of these sought refuge among their old enemies, the English, but a very large part of them found an asylum in the United States. They were very generally people of the higher classes, and, so far as possible, inclined to retain their old manner of life at however great an expense.

The investor generally seeks investments at a high rate of profit, but it must be conceded that the abuse of credit in America had been such as to enforce circumspection upon any European before he ventured his capital in an American enterprise. It might be hoped that Lord Sheffield in his partisanship

[1] COXE, p. 289.

had overrated this abuse, but when his testimony is corroborated by the opinions of such men as Governor Hutchinson, Tench Coxe and Hezekiah Niles, covering an entire century of our history, the evidence must be accepted as decisive. The English investor, moreover, had now lost the advantage that Englishmen have always possessed when dealing with English colonies. He now found a bitter prejudice to overcome where in past years he had met a hearty welcome. He also found that bars were put up before him in the way of discriminating tariff and tonnage duties. With the exception of these duties it was the policy of the government, for the first twenty years, to encourage foreign investments, but when the charter of the first United States bank expired this policy was changed. The management of the war loans of 1812–1815 was of such a nature that the only possible purchasers of government bonds were those who started state banks and issued an irredeemable paper currency for the purpose of making their payments to the government. The condition of the currency, and the view generally taken of financial obligations, throughout all the middle, southern and western portions of the country, were such as to discourage investment by all but the most venturesome of capitalists. The embargo and the war of 1812 practically shut the foreign investor out of the commercial field during nearly a fifth of this period. The domestic manufactures that were developed by these two political measures also discouraged the foreign investor by decreasing his chances of exceptional profits.

An element in the problem that is not usually appreciated is the fact that in the three decades under consideration the difference between the United States and Europe as regards the exploitation of natural resources was much less than it has been at any other time in our history, until within the last twenty years. It is true that hardy pioneers were making brave but quite futile attempts to subjugate the Mississippi valley, but the United States that is to be considered as a factor in international business relations had not yet crossed the Alleghanies. It was not until the middle of the next decade that New York opened

a way to the far West, and at the same time made it possible to bring the products of her own fruitful farms to the seaboard. The lack of means of transportation made almost all of Pennsylvania's vast mineral wealth as inaccessible as if it had been buried in some other continent. Moreover the density of the population in that part of our territory was much nearer equal to that in Europe than is generally supposed. That part of the territory of the United States which should be taken into consideration under the above view, had fully as dense a population, relative to the population of Europe, in 1820 as the whole territory of the United States had in 1880. The United States was much less in the condition of a country whose natural resources are offered for exploitation than one would expect from the developments of the succeeding half century.

There are at least two points of importance tending to an increased investment of capital abroad during this period. The extraordinary expenditures of the British government and the other European powers, together with improvements in manufactures, made it possible for capital to reap unusual profits in all the great manufacturing centers of England. At the same time the opening up of commerce with China and the East had given to the American merchant and sailor a field of enterprise for which he was especially adapted by nature, disposition and training. But it necessitated the withdrawal of more or less of his capital from home investment, for use in those foreign ports with which his dealings most closely connected him.

It is evident therefore, that the general causes that may be supposed to have influenced the international credit relations of the United States during this period were not such as would lead us to expect a result materially different from that indicated by the records of the actual transactions.

The beginnings of American financial independence lie within the first thirty years of the Constitution. But these beginnings were largely due to loss of credit, foreign wars that gave exceptional opportunities to our merchant marine, peculiar advantages enjoyed by capital employed in English manufactures, and

inability to exploit our own natural resources. All of these causes were of a temporary nature, and either ceased to exist or were greatly diminished during the next decade. It follows that though for a time the United States maintained a quasi-independence financially, her return to the condition of a debtor nation was a foregone conclusion.

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